



United States
Department of
Agriculture

Food and
Consumer
Service

Mountain
Plains
Region

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Reply to SP-96-13
Attn of: CACFP 473
[REDACTED]

Subject: Changes in the Small Purchase and Capital Expenditure Thresholds

To: STATE AGENCY DIRECTORS -Colorado ED, Colorado DPHE, Colorado HS,
(Child Nutrition Programs) Iowa, Kansas, Missouri ED, Missouri DH,
Montana OPI, Montana DPHHS, Nebraska ED,
Nebraska SS, North Dakota, South Dakota,
Utah, Wyoming ED, Wyoming DHSS

Within the last year, changes have been made to the small purchase and capital expenditure thresholds. These changes affect the Child Nutrition Programs in various ways.

On April 19, 1995 in response to Public Law 103-355, the Federal Acquisition Streamlining Act of 1994 and recommendations of the National Performance Review, the Department amended its financial management regulation for **nonentitlement programs**, 7 CFR Part 3016, to reflect a revised small purchase threshold of \$100,000. The Nutrition Education and Training Program (NETP), School Breakfast Program Start-up and Expansion Project and Summer Food Service Program Start-up and Expansion Project (SBP/SFSP Start up and Expansion Projects) are nonentitlement programs. As such, they are subject to the higher small purchase threshold.

This change does not increase the small purchase threshold for entitlement programs: National School Lunch Program, School Breakfast Program, Child and Adult Care Food Program, Summer Food Service Program, Special Milk Program and State Administrative Expense. Formal procurement methods are still required for any procurement action expected to equal or exceed the \$10,000 threshold contained in Office of Management and Budget (OMB) Circular A-102, Attachment O.

On May 17, 1995 OMB Circular A-87, Cost Principles for State and Local Governments, was revised (copy attached). Many of the changes reflect the efforts by OMB to obtain consistency in its guidance on cost principles for all types of grantees. Of particular interest for State Agencies (SAs) and Child Nutrition Program participants was the change in the definition of equipment and the clarification of capital expenditures. An item of equipment is now defined as having an acquisition cost of \$5,000 per unit and a useful life of more than one year. Items that do not meet this definition are classified as supplies. As in the past, the cost of supplies can be directly expensed at the time of purchase, while the cost of equipment should be depreciated or subject to a use allowance, unless prior approval for direct expensing of the equipment has been granted by the awarding agency, i.e., SBP/SFSP Start-up and Expansion Projects. This change will affect all SAs, all school food authorities and any public institution

participating in the Child Nutrition Programs. It does not affect nonprofit private schools or nonprofit and proprietary institutions participating in any Child Nutrition Program. The changes in the revised Circular were effective for agreements made or renewed on or after September 1, 1995. For cost allocation plans, the revised Circular was effective for the governmental unit's Fiscal Year that begins on or after September 1, 1995.

On July 14, 1995 OMB issued a notice (copy attached) increasing the equipment cost threshold to \$5,000 in Circulars A-21, Cost Principles for Educational Institutions, i.e., institutions of higher education, and A-122, Cost Principles for Non-Profit Organizations for cost allocation plan negotiations only. This notice has caused some confusion at the Regional and State levels. The higher threshold is only to Federal agencies with cost negotiation cognizance. It will not be available to SAs or local nonprofit program participants until OMB issues a revised Circular A-122 in final form. OMB issued a proposed revision to Circular A-122 on October 6, 1995. The proposal included the higher capitalization threshold in addition to other changes. We expect an increased threshold will be included in the revised Circular when it is finalized.

On August 24, 1995 the Department issued a final interim rule, 7 CFR Part 3019, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals and Other Nonprofit Organizations. The regulation implements revisions to OMB Circular A-110, which was published on November 29, 1993. As stated in the Supplementary Information section of 7 CFR Part 3019, the administrative regulations for the Department's entitlement programs will remain in 7 CFR Part 3015. The changes contained in the revision to OMB Circular A-110 and 7 CFR Part 3019 do not apply to Child Nutrition entitlement programs because the changes apply only to nonentitlement programs, i.e., NETP and the SBP/SFSP Start-up and Expansion Projects.

On September 26, 1995 the Department issued proposed changes to its debarment and suspension regulations, 7 CFR Part 3017 (copy attached). The Department used this opportunity to note, in the Supplementary Information section of the proposed rulemaking, the small purchase threshold that applies to lower tier procurement contracts (i.e., covered transactions) had been increased from \$25,000 to \$100,000 in response to changes in the threshold resulting from P.L. 103-355. The increase in the covered transaction threshold is now in effect. This change affects all Child Nutrition Programs. The requirements do not apply to procurement contracts of less than \$100,000, except those involving principal investigators or providers of audit services. (Also see SP 96-04, CACFP-452 and SFSP-279, dated November 22, 1995)

Please call our office for additional information or clarification.

Ann C. Degroat

ANN C. DEGROAT
Regional Director
Child Nutrition Programs

Attachments